

Conflict of Interest Remains Top SEC Priority

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The SEC continues to identify [conflicts of interest](#) as a key focus of its risk-based strategy. In recent remarks before the National Society of Compliance Professionals, Carlo V. di Florio Director, Office of Compliance Inspections and Examinations, reiterated that conflicts of interest are a top priority of the agency's examination program.

As di Florio highlights, conflicts of interest, loosely defined as a scenario where a person or firm has an incentive to serve one interest at the expense of another interest, can take many forms. For example, it might mean serving the interest of the firm over that of a client, or serving the interest of one client over other clients, or an employee or group of employees serving their own interests over those of the firm or its clients.

Although SEC examiners encounter many different types of conflict, di Florio indicated that the following take top priority:

- **Compensation-Related Conflicts and Incentives:** This includes retail customers' interests potentially taking a back seat to various financial incentives of a broker-dealer or its representatives in recommendations and sales practices for new or risky products.
- **Portfolio Management-Related Conflicts:** This includes investment advisers that prefer one client over another due to financial incentives or personal relationships and portfolio management activities by fund advisers that involve risks beyond the risk tolerance levels or stated objectives in the prospectus.
- **Affiliations Between Advisers and Broker-dealers:** This includes incentives that influence whether the client is put into an IA or BD account and incentives of an investment adviser to use an affiliated broker-dealer for executing a client's trade even though the price or other terms of the execution are substandard.
- **Valuation:** This includes incentives of broker-dealers' and investment advisers to provide high marks in pricing relatively illiquid positions and inflating valuations to attract investors and charge more fees.

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